

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 COME-00 EB-08 INR-07
LAB-04 NSAE-00 SIL-01 DODE-00 PM-04 H-01 L-03 NSC-05
PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 FRB-03
TRSE-00 XMB-02 OPIC-03 OMB-01 /098 W
-----021848 116540/43

R 021815Z MAR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1163
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION NATO BRUSSELS
USMISSION OECD PARIS
USMISSION GENEVA
AMEMBASSY STOCKHOLM
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

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TAGS: ELAB, UK, PINT
SUBJECT: THE TOOL ROOM REVOLT: WILL BRITISH LEYLAND
SURVIVE?

REF: 76 LONDON 5140

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BEGIN SUMMARY. THE TROUBLES WHICH CHRONICALLY BESET THE
UK AUTOMOBILE INDUSTRY ARE EXEMPLIFIED BY THE CASE OF
ONE OF ITS LONG-AILING GIANTS, BRITISH LEYLAND (SEE
REFTEL). IN RECENT DAYS, THE SIMMERING CRISIS HAS
ERUPTED AGAIN, FOLLOWING A TOOLMAKERS' STRIKE WHICH HAS
NEARLY PARALYZED COMPANY OPERATIONS AND RAISED SERIOUS
DOUBTS ABOUT THE COMPANY'S FUTURE. PRIME MINISTER

CALLAGHAN AND OTHER LEADING MINISTERS HAVE EXPRESSED STRONG CONCERN, AND AN EMERGENCY DEBATE IS SCHEDULED THIS AFTERNOON IN THE COMMONS TO DEAL WITH THIS LATEST OF LEYLAND'S AUTO-CRISSES. IT IS NOT YET CLEAR WHAT THE GOVERNMENT PLANS TO DO, BUT EVEN IF THE TOOL ROOM WORKERS SOON PICK UP THEIR DIES AND JIGS, THE TROUBLES AT BRITISH LEYLAND WILL NOT BE OVER. POOR INDUSTRIAL RELATIONS AND POOR PRODUCTIVITY HAVE PLAGUED THE COMPANY FOR SOME TIME. IT IS UNLIKELY, HOWEVER, THAT THE GOVERNMENT WILL TAKE ANY DRASIC MEASURES IN THE NEAR FUTURE. END SUMMARY.

1. THE CURRENT PHASE OF WHAT IS ESSENTIALLY A CONTINUING CRISIS AT BRITISH LEYLAND -- LONG SUFFERING FROM POOR INDUSTRIAL RELATIONS, POOR PRODUCTIVITY AND, IN THE OPINION OF SOME CRITICS, POOR MANAGERIAL DECISIONS -- WAS TRIGGERED MAINLY BY A STOPPAGE OF TOOL ROOM WORKERS, WHICH SPREAD FROM PLANT TO PLANT. NOW IN ITS 12TH DAY, THE STRIKE, TOGETHER WITH MINOR STOPPAGES BY OTHER GROUPS OF WORKERS, HAS FORCED THE LAY-OFF OF ABOUT 30,000 WORKERS AND THIS NUMBER IS EXPECTED TO GROW. THE TOOLMAKERS, THE SKILLED ELITE OF THE INDUSTRY, INSIST ON BEING RECOGNIZED AS A SEPARATE BARGAINING UNIT WITHIN THE COMPANY IN ORDER TO GET A SATISFACTORY RESPONSE TO THEIR MAJOR COMPLAINT -- THE EROSION OF PAY DIFFERENTIALS IN RELATION TO LESS SKILLED WORKERS, A CONDITION MUCH EXACERBATED BY TWO YEARS OF PAY RESTRAINT. EFFORTS BY THE COMPANY TO GET THEM BACK TO WORK, JOINED BY LEADERS OF THE AMALGAMATED UNION OF LIMITED OFFICIAL USE

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ENGINEERING WORKERS, SUCH AS JOHN BOYD AND HUGH SCANLON, HAVE THUS FAR BEEN UNSUCCESSFUL, ALTHOUGH THERE ARE NOW SOME HOPEFUL SIGNS.

2. THE TOOLMAKERS, LIKE MOST SKILLED WORKERS THROUGHOUT BRITISH INDUSTRY, FEEL AGGRIEVED. THE GOVERNMENT, THE TUC AND THE CBI, IN FACT, HAVE RECOGNIZED THAT THE PROBLEM OF ERODED DIFFERENTIALS WILL HAVE TO BE DEALT WITH IN ANY THIRD ROUND OF WAGE RESTRAINT (INFOFAR AS THIS IS POSSIBLE WITHIN THE LIMITS OF A HOPED-FOR MODEST OVERALL INCREASE IN WAGES). THE TOOL ROOM WORKERS, HOWEVER, HAVE "JUMPED THE GUN" BY STRIKING IN ORDER TO DRAW ATTENTION TO THEIR NEEDS IN ADVANCE OF THE OVERALL PAY ACCORD WHICH MAY BE REACHED FOR THE NEXT ROUND AND IN OPPOSITION TO THEIR OWN NATIONAL TRADE UNION ORGANIZATION, THE AUEW.

3. THE "TOOL ROOM REVOLT" NOW THREATENS THE ENTIRE COMPANY'S EXISTENCE. PRIME MINISTER CALLAGHAN DECLARED

THAT A REVIEW OF BRITISH LEYLAND WOULD HAVE TO BE
UNDERTAKEN BEFORE ANY FURTHER FINANCIAL COMMITMENTS TO
IT WERE MADE AND HE WARNED THE TOOLMAKERS THAT THE
"BIGGEST DIFFERENTIAL OF ALL IS BETWEEN THE MAN WHO
IS IN A JOB AND THE MAN WHO IS OUT OF ONE . . ." THE
NATIONAL ENTERPRISE BOARD, WHICH IS THE CHIEF STOCK-
HOLDER IN BRITISH LEYLAND, CONVENED AN EMERGENCY

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MEETING TO DEAL WITH THE SITUATION AND REPORTEDLY WROTE

BRITISH LEYLAND MANAGEMENT THAT CUTS IN THE DEVELOPMENT
PLAN FOR THE COMPANY WOULD BE MADE UNLESS INDUSTRIAL
PEACE WERE RESTORED. GERALD KAUFMAN, MINISTER OF
STATE, DEPARTMENT OF INDUSTRY, SAID THE COMPANY WAS
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IN DANGER OF "BLEEDING TO DEATH" AND THAT WHILE HE
RECOGNIZED THE IMPORTANCE OF DIFFERENTIALS, SURVIVAL
IS EVEN MORE SIGNIFICANT.

4. THE CURRENT UPHEAVAL HAS ONCE AGAIN FOCUSED THE
PUBLIC SPOTLIGHT ON A COMPANY WHICH HAS BEEN BESET
WITH LABOR AND PRODUCTIVITY PROBLEMS. (LAST YEAR,
PRIME MINISTER CALLAGHAN NOTED, THE COMPANY HAD A
SHORTFALL IN PRODUCTION OF 200,000 CARS -- AND HE
WARNED THAT UK COMPETITORS, INCLUDING THE JAPANESE,
WERE EAGER TO FILL THE GAP.) PART OF BRITISH LEY-
LAND'S DIFFICULTY IS HISTORIC. AS THE PRODUCT OF A
MERGER OF SEVERAL COMPANIES, IT INHERITED NEARLY 200
DIFFERENT WAGE SETTLEMENTS, SPREAD OVER ITS MANY
PLANTS AND DIVISIONS. ITS EFFORTS TO RESTRUCTURE
WAGES HAVE BEEN SEVERELY HAMPERED BY A RIGID PAY RE-
STRAINT POLICY. THIS MULTITUDE OF AGREEMENTS INVOLVING
MULTIPLE UNIONS, HAS CONTINUED TO STIMULATE UNOFFICIAL
STOPPAGES AND CONSEQUENT LOSS OF PRODUCTION. IT IS NOT
THAT THE COMPANY HASN'T MADE CREATIVE EFFORTS TO
IMPROVE OVERALL INDUSTRIAL RELATIONS, SUCH AS A NOTE-
WORTHY WORKERS PARTICIPATION SCHEME, BUT THIS AND OTHER
EFFORTS HAVE NOT CORRECTED THE BASIC PROBLEMS.

5. MANAGEMENT DECISIONS HAVE ALSO BEEN CRITICIZED.
THE FINANCIAL TIMES (MARCH 2) SAYS: "THE MANAGEMENT'S
FAILURE TO MAKE ANY IMPACT ON THE CRUCIAL AREA OF
PRODUCTIVITY CALLS INTO QUESTION THE ENTIRE RYDER
STRATEGY FOR RESTRUCTURING THE COMPANY. (LORD RYDER
IS FORMER CHAIRMAN OF BRITISH LEYLAND AND CURRENTLY
CHAIRMAN OF THE NATIONAL ENTERPRISE BOARD, WHICH PRO-
VIDES THE MAJOR FINANCIAL SUPPORT TO THE COMPANY.) THIS
WAS BASED ON THE CONCEPT OF KEEPING LEYLAND IN THE
VOLUME CAR BUSINESS, ENSURING THAT IT CONTINUED WITH
AS BROAD A RANGE OF CARS AS ANY COMPANY IN EUROPE,
AND POURING MONEY (250 MILLION POUNDS) INTO A REPLACE-
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MENT MINI."

6. THESE ARE THE KINDS OF PROBLEMS WHICH THE COMMONS WILL BE DEBATING THIS AFTERNOON (MARCH 2). THERE ARE SIGNS THE TOOL ROOM STRIKE MAY END SOON, BUT THE BASIC MALAISE LINGERS. A CENTRAL QUESTION IS: SHOULD THE GOVERNMENT KEEP POURING MONEY INTO BRITISH LEYLAND AS IT IS NOW CONSTITUTED, OR SHOULD IT TAILOR AND CUT THE COMPANY STRUCTURE AND PRODUCTION PATTERNS -- SUCH AS FEWER LINES -- SO THAT ITS FINAL PRODUCTS ARE MORE SALEABLE (BOTH IN DOMESTIC AND EUROPEAN MARKETS, WHERE IT IS LOSING OUT TO COMPETITION)? OUR PRELIMINARY ASSESSMENT IS THAT THE GOVERNMENT IS UNLIKELY TO MAKE ANY DRAMATIC CHANGE AT BRITISH LEYLAND IN THE SHORT TERM, LARGEMLY BECAUSE OF THE POLITICAL IMPLICATIONS INVOLVED. IT CANNOT DRASTICALLY RESTRUCTURE THE COMPANY NOW WITHOUT SIGNIFICANTLY INCREASING CURRENT HIGH UNEMPLOYMENT LEVELS AND INCURRING THE POLITICAL COSTS. IT IS MORE LIKELY THAT BRITISH LEYLAND'S "CAR SICKNESS" WILL BE TREATED WITH SOME OF THE OLD MEDICINE -- MORE MONEY, MORE ADMONITIONS AND IF THE GOVERNMENT WANTS TO COVER ALL ITS BETS, MORE PRAYER. ARMSTRONG

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Message Attributes

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